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UK Insolvency Analysis 2023

By Roberto Simone

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Foreword

Dear reader,

I am delighted as the new Chief Executive Officer of Xenia to present our first Corporate Insolvency Analysis of 2024. This report covers Q4 2023 and FY 2023.

As we move through Q1 2024, we have heard officially that the UK entered into recession in the final two quarters of 2023, with the economy shrinking by 0.3% in the last quarter. For the FY 2023, the UK economy grew by 0.1% making it the weakest growth year since 2009, and many analysts are predicting a mild recession.

2023 represented a tough trading environment for UK businesses due to a challenging mix of high interest rates, stubborn inflation, slowing demand and higher energy and transportation costs. As this report confirms, 2023 was the highest year in terms of number of insolvencies since 1993. Despite this, UK exporters have proven themselves to be surprisingly resilient in maintaining order books.

At Xenia we supported our clients with claim payments exceeding £26m in 2023. With many analysts predicting Insolvencies to continue to rise in 2024, Xenia will continue to play an important role in helping UK businesses navigate these risks by using trade credit insurance as a risk mitigation tool.

Kind regards,

Steven Stennett
CEO
Xenia Broking

Contents

Xenia's UK Insolvency Analysis are designed to work alongside a credit insurance programme. The purpose of this report is to provide you with objective and practical information that will help to advance your understanding of the issues and how they might impact your business.

We welcome your thoughts and questions on the issues covered. Please email us on info@xeniabroking.com should you require any further advice or have questions about this report.

Insolvencies in England & Wales Q4 & 2023

It is fair to say we have seen businesses encounter a rough ride over the past few years. The UK and Global economies have been, and continue to be, hit by issues as a consequence of Brexit and the Covid pandemic creating tough economic challenges that many businesses of all shapes and sizes are facing. Unfortunately, this is reflected in these latest insolvency datasets. The latest annual ONS (Office of National Statistics) insolvency data for 2023 has certainly validated the overall sentiment and challenges enterprises are facing. In fact, corporate insolvencies in England and Wales elevated to their highest level since 1993 during the year, driven by those colossal challenges facing companies amid slowing demand and high production costs. In effect there were 25,158 company insolvencies in 2023, which was an increase of 13.7% versus 2022, the highest seen for three decades. This disquieting fact was propelled by a 9% increase in voluntary liquidations which hit the astonishing level of 20,577, the highest since records begun.

As we have evoked in previous insight series' these exceptionally high numbers were not only expected but we touched upon and revealed the multiple pressures businesses were facing at the start of the year as borrowing costs surged, salaries and wages increased, inflation remained higher than desired and an economy that was stagnating and eventually worsened. Therefore, the rising deluge of insolvencies was not only attributed to the aforementioned, but the compounded combination of increased costs, curtailed spending and purchases, fall in demand, creditor pressures and the post pandemic legacy. Not to mention the sequencing of Brexit. However, inflation is falling to the Bank of England's targeted level of 2%, interest rates are maintained for the fourth time, sentiment tracking is improving and the latest trading results on listed companies is demonstrating the resilience in the market, which will have impact on the supply chain and trading cycle. Our observation is that the UK market is actually moving in a positive trajectory compared to previous years, but we must remain mindful and focussed on balancing growth with strong risk management and candour.

Key Findings for Q4 2023

- In Q4 there were 6,788 (seasonally adjusted) company insolvencies recorded.
- There were 5,578 creditors' voluntary liquidations (CVLs) accounting for 82% of all insolvencies in Q4 2023.
- Compulsory liquidations were reported at 780 and this was both 6% higher than Q3 2023 and Q4 2022.
- 379 administrations were recorded in Q4, and this was 17% lower than the previous quarter, and 8% higher than the same period in 2022.
- In the four quarters ending Q4 2023, the company liquidation rate increased to 53.7 per 10,000 companies from 52.4 in Q3 2023.
- Construction related insolvencies amounted to 18% of all insolvencies in the 12-month period ending Q4 2023 recorded at 4,371 – a 2% increase.

Quarter Summary of Company Insolvencies

Company insolvency statistics						
Year	Total Insolvencies	Compulsory liquidations	CVLs	Administrations	CVAs	Receiverships
Q1 2022	4,884	340	4,244	275	25	0
Q2 2022	5,635	382	4,929	321	32	1
Q3 2022	5,602	504	4,807	295	29	0
Q4 2022	5,949	733	4,839	352	25	0
Q1 2023	5,798	667	4,776	317	38	0
Q2 2023	6,318	644	5,202	416	56	0
Q3 2023	6,254	736	5,021	455	41	1
Q4 2023	6,788	780	5,578	379	50	1

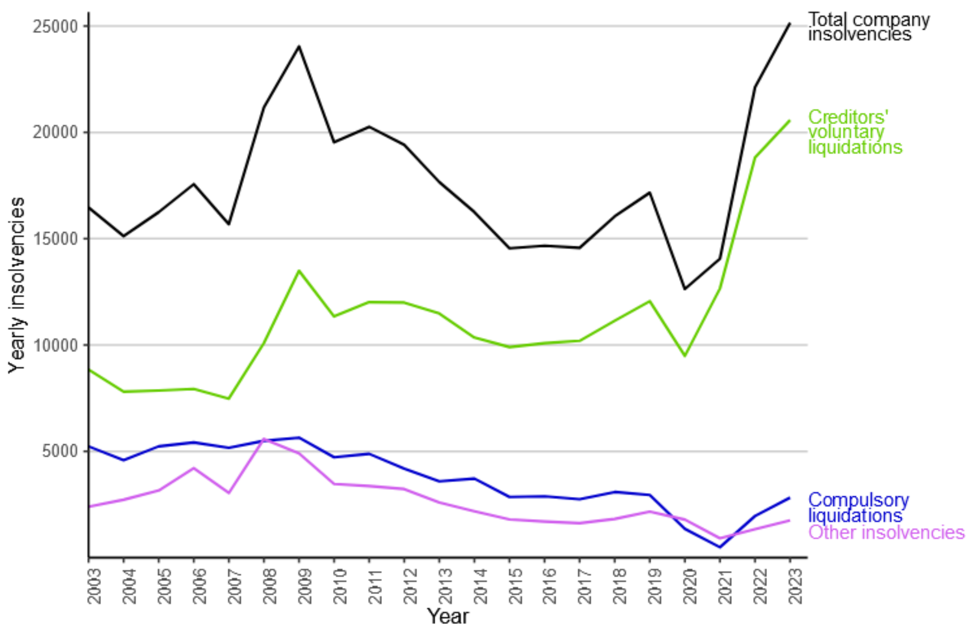
Key Findings for FY 2023

- There were 25,158 registered insolvencies in 2023, up 13,7% from 2022 and the highest number for 30 years.
- These figures included 20,577 creditors' voluntary liquidations (CVLs) 9% higher than 2022 and the highest number on record.
- Compulsory liquidations (2,827) and Administrations (1,567) were higher than 2022 but slightly lower than pre-pandemic levels.
- CVAs (185) also increased on 2022 but remained relatively low and suggested fast tracking insolvency was the better option.
- CVLs were the most common insolvency procedure with 82% of all cases and perhaps reflects the challenging environment of businesses opting for this process versus others. Compulsory liquidations were 11% and Administrations 6%.
- In 2019, CVLs accounted for 70% of cases, followed by compulsory liquidations (17% of cases), administrations (11% of cases) and CVAs (2% of cases).

In 2023, the company liquidation rate was 53.7 per 10,000 active companies. This corresponds to 1 in 186 companies entering liquidation in 2023 versus 49.6 per 10,000 in 2022.

Year-on-Year Company Insolvencies

Company insolvency statistics						
Year	Total Insolvencies	Compulsory liquidations	CVLs	Administrations	CVAs	Receiverships
2019	17,164	2,943	12,056	1,813	351	1
2020	12,631	1,353	9,488	1,527	260	3
2021	14,059	491	12,656	796	115	1
2022	22,123	1,961	18,819	1,231	111	1
2023	25,158	2,827	20,577	1,567	185	2



Registered company insolvencies in 2023 were at the highest level since 1993, driven by an increase in CVLs.

Insolvencies by Industry

Construction remains the most significant contributor to the insolvency statistics, representing 18% of all insolvencies in the period to Q4 2023, with 1,154 construction companies becoming insolvent in the fourth quarter compared to 1,005 in Q3 and amounting to 4,371 year-to-date. The other sectors that often add to the headline tally of business failures are Wholesale & Retail, which reported 1,064 companies' insolvent in Q4 2023, alongside Accommodation and Food Services, where 1,013 businesses failed. The combined total of these sectors represents just under 50% of all insolvencies respectively. With inflation still a challenge and interest rates still elevated but now maintained amongst other challenges, it is expected to hit many more sectors in the coming months.

Insolvencies Year-to-Date by Sector/Industry

	Sector	2020	2021	2022	2023
A	Agriculture Forestry and Fishing	40	38	85	84
B	Mining and Quarrying	20	38	39	35
C	Manufacturing	1,170	1,019	1,687	1,985
D	Electricity; Gas; Steam & Air Conditioning Supply	53	91	92	53
E	Water Supply Sewerage, Waste Manage & Remediation	75	71	118	134
F	Construction	2,061	2,581	4,165	4,371
G	Wholesale and Retail	1,687	1,722	3,283	3,929
H	Transportation and Storage	436	532	786	880
I	Accommodation and Food Services	1,715	1,676	2,712	3,727
J	Information and Communication	690	908	1,289	1,394
K	Financial and Insurance Activities	327	304	414	415
L	Real Estate	352	401	707	747
M	Professional; Scientific and Technical Activities	1,007	1,371	1,807	2,001
N	Administrative and Support Service Activities	1,457	1,584	2,229	2,299
O	Public Administration; Defence Compulsory Soc	11	22	33	24
P	Education	153	181	272	313
Q	Human Health and Social Work Activities	274	279	464	515
R	Arts; Entertainment and Recreation	289	336	434	479
S	Other Services	605	733	1,263	1,349
T	Activities of Households as Employers	1	2	8	7
U	Activities of Extraterritorial Organisations and Bodies	1	1	3	4
-	Unknown	207	169	231	413
-	**Total**	**12,631**	**14,059**	**22,121**	**25,158**

Sector analysis

The elevated insolvencies in 2023 have been driven primarily by increases in the Accommodation & Food, Wholesale & Retail and Manufacturing sectors, whereas the Construction and Administrative & Support Services sectors, whilst are always high in volume have shown a much smaller increase.

Construction

During 2023 corporate insolvencies surged to levels that had not been seen for over 30 years. We observed an alarming surge in Construction failures including some high-profile casualties causing further supply chain challenges. The latest year-on-year construction data confirmed what the industry analysts and credit insurance space were fearing with trends in this field continuing the negative trajectory seen at the end of 2022. The main reasons contributing to this rise were high inflation, covid loan repayments, rising costs, shortage of equipment and materials, longer lead times, and cost overruns. Not to mention the ever-present issues of labour shortages and slow digital adoption.

Food & Drink

UK Food and Drink insolvencies also soared in 2023, particularly the first half of the year and this was as a consequence of soaring costs for ingredients, materials, energy and staff, exacerbated by inflationary pressures and the war in Ukraine, as well as a lingering post-pandemic hangover. In addition, interest rates increasing to levels not seen for over a decade forced up the cost of borrowing, at a time when consumers are cautious about overspending. The result has seen a failure of smaller businesses in the food and drink supply chain, particularly those that had been surviving due to historically low interest rates.

Retail

This struggling and stressed sector of retail together with the decline in high street footfall is of course impacting several indirect sectors and compounding matters for the important flagship segment. Stores are disappearing from high streets at a rapid pace as consumers' changing behaviour is increasingly shifting from shopping in store to online. Many retailers find themselves in an uncomfortable position as margins are being squeezed between weakening demand and rising costs too.

In the retail space, 40 high street brands either closed or scaled back their operations, with most grieving at the expense of running bricks and cement stores. More than 1,000 big retail chain branches closed across the UK in 2023 in extensive cost-cutting measures driven by the challenges of the year. The economic climate has accelerated the disposal of some businesses that had struggled to adapt to an ever-changing market. Retail companies in particular have found the public's switch to online shopping difficult. After years of expansion and growth, many companies in the retail sector have found themselves saddled with large premises accruing huge rents and workforce costs. They've found that these sites are no longer viable after the ecommerce boom, and we're still seeing a hangover from that in these figures. Insolvencies charged to 56% in the year, the highest level in nearly a decade, according to figures from law firm RPC. Around 1,942 retailers went into administration in 2022-23, up from 1,243 in 2021-22, beating pandemic levels.

Hospitality

The hospitality sector has also struggled during the year with operating costs and the cost-of-living crisis forcing the public to cut back on non-essential spending. Over 1,200 chain eateries and other hospitality centres closed their shutters for the final time this year, with an estimated 5,000 jobs lost.

Major Insolvencies in Q4

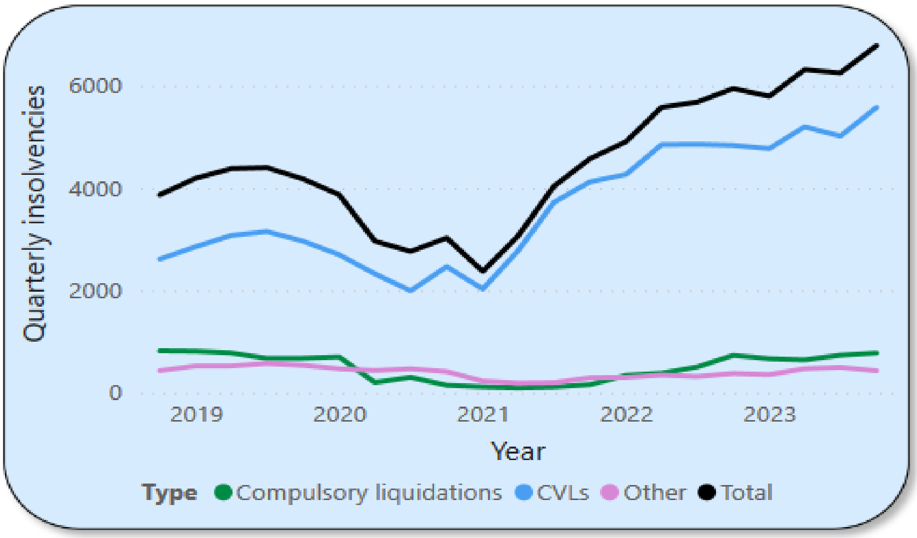
Michael J Lonsdale - Turnover £191m - Unsecured Creditors £65m - Collapsed into administration in October after a history of 40 years. The failure was attributed to inflation, shortage of workers, project delays and supply chain disruptions. The firm was one of the major M&E management contractors in London working with major clients on large schemes like Broadgate and the Battersea Power Station's redevelopment.

Wiggle Ltd - Turnover £247m - Unsecured Creditors £26,7m - The cycling and multi-sports online retailer filed for administration towards the end of October and is still currently up for sale. Its sister brand, Chain Reaction, is also included in the administration. The Portsmouth-based European online retailer, selling cycle, run, swim and outdoor equipment and apparel suffered a fall in trade as well as liquidity problems for several months. The company is ultimately owned by SIGNA Sports United based in Germany that also had liquidity problems, which compounded matters. Revelations of the financial difficulty were apparent in the summer when it was reported a £97 million loss. Unsecured Creditors were brands such as Asics, On Running and Under Armour.

Safestyle UK - Turnover £145m - Unsecured Creditors £13.5m - Placed into administration in October due to a downturn in business caused by economic circumstances that was placing huge pressures upon many of the members across the industry. Safestyle had struggled after facing several pressures, including skyrocketing inflation and poor consumer confidence, administrators cited.

Some other notable Insolvencies in the fourth quarter and latest turnover:

- UK Windows & Doors Group Ltd - £122m
- Inland Partnerships - £68m
- Scent Global - £60m
- HB Projects - £56m
- Stanley Gibbons – £12.5m
- Vbites Foods Ltd - £10m



Notable Insolvencies of FY 2023

Construction

Buckingham Group - £665m - Unsecured Creditors £108m - Filed for administration in August primarily driven by deep losses and cash deficits.
Henry Construction - £402m - Unsecured Creditors £43m - Went into administration in June becoming the largest firm to collapse in the construction sector since October 2021.
Tolent Construction - £198m - Unsecured Creditors £76m - Collapsed in February 2023 following a series of financial difficulties such as a number of major loss-making contracts. 1000 creditors
Metnor Construction - £63m - Unsecured Creditors £10m - Significant financial challenges amid contract losses and pressures on profit margins from rising input, labour, and raw material prices alongside supply issues against fixed price contracts.
Malin Industrial Concrete Floors - £26m - Unsecured Creditors £11m - Significant drop in income, cash flow struggles caused by fixed price contracts and delays to several schemes in its pipeline.

Retail

Wilko Ltd - £1.3 billon - Unsecured Creditors £548m **-** UK discount retailer Wilko collapsed into administration in August 2023, after rescue talks with prospective suitors failed. The failure was driven by a cash flow crisis as a consequence of increasing competition, supply chain woes and reduced footfall.
Cath Kidston Group - £130m - Unsecured Creditors £90m **-** Well-known apparel retailer, was put into administration in late March 2023. The IP, brand and domain names of Cath Kidston were acquired by Next via a pre-pack for £8.5m.
Paperchase - £130m - Unsecured Creditors £20m - The upmarket stationery and gifts retailer went into administration in February 2023 on the back of accumulated increased losses and a fall in demand. Tesco bought the rights to the brand but not the 106 UK branches.
Victoria Plumb - £115m - Unsecured Creditors £15m - Filed for Administration in September principally driven by a drop in market demand and an increase in freight costs. Sold via prepack administration deal to Beds.co.uk owner.
Lavish Alice - £50m - Unsecured Creditors £2.5m - The trading style of Fast Fashions Collection International was placed into an administration process in February with debts of up to £4m.
Connect Distribution Services - £97m - Unsecured Creditors £10m - The online distributor of spare parts, accessories, and consumables mainly for DIY appliances, went into administration in March 2023. Stock, IP, contracts, and fixed assets were acquired out of administration by Screwfix for a cash consideration of £3m.
Moore Large & Co Ltd - £40m - Unsecured Creditors £20m - Cycle distributor established back in 1947 went into administration in April. A combination of rising interest rates, sterling devaluation and massive oversupply leading to discounts, led to the financial challenges including increased debt burden and diminishing margins.
Maker & Son Ops - £30m - Unsecured Creditors £16m - Manufacturer and retailer of luxury furniture, which went through a process of liquidation in March. Global supply chain disruption and a lack of capital pushed the business into financial distress.

Staying Ahead of The Curve

"The real test is not whether you avoid failure, because you won't. It's whether you let it harden or shame you into inaction, or whether you learn from it." Barack Obama

Whilst the latest macro-economic data suggests the general economy and outlook appears to have improved, there is still unease and disquiet impeding many decisions and sentiment. The business outlook remains cautious in view of the ongoing uncertainties. Businesses are continuing to operate in a challenging environment and as a result, cash will become tight for many more businesses due to increased finance costs and increased costs of supplies. Looking ahead, uncertainty in a broader sense may leave a negative impression on consumer and corporate confidence. The economy continues to tread on the cliff edge of recession as the government is trying to battle inflation.

While steps can be taken to protect a business as best it can from the possible consequences of insolvency within its supply chain, it will nevertheless remain important to act quickly and decisively when required. It can have a severe impact on a company's own business, which it should seek to mitigate as much as possible. Acting early and seeking advice is key to addressing potential problems, to protect the business, maintain cashflow, and safeguard against any threats to continued trading.

Strengthening credit management is now a necessity to ensure success and viability. It must be a priority. This can be achieved by taking the necessary action with a primary focus around the following:

1. Pre-vetting of prospective clients by obtaining and maintaining information about their financial health.
2. Establishing expected payment behaviour and a well-structured collections process.
3. Ensuring delayed payments are addressed by issuing automatic, escalating reminders, or chasing frequently.
4. Having the right tools at hand to mitigate loss such as credit insurance, collections, or recoveries.

These are just an array of practices that can be employed to minimise the risk of bad debts to the business, but there are other factors that could influence decision making. For instance, some smaller businesses are reliant on a small number of larger customers to sustain their top line, with these customers sometimes making up the vast majority of a company's turnover. However, being heavily reliant on one customer has significant drawbacks and so diversification in this area is instructed.

As we have advised in recent years, in such uncertain times, resilience, adaptability and education are key. Our specialist credit insurance team, with the aid of a credit insurance policy, can act as an extension to your credit management function. Our aim is to work in partnership providing a tailored service helping protect and grow your business. More companies are looking at trade credit insurance as a strategic investment as direct and indirect returns can be substantial. Credit Insurance can be beneficial in more than one way in this current environment.

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